



**MINUTES FROM MEETING OF THE INVESTMENT SUBCOMMITTEE
OF THE CASH MANAGEMENT POLICY BOARD
May 2, 2016**

A Telephonic Meeting of the Investment Subcommittee of the Cash Management Policy Board was Held on Monday, May 2, 2016 at 2:00 PM in the Conference Room of the Office of the State Treasurer Located at 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Board Members in Attendance:

Mr. Dave Marvin, Chair, Investment Subcommittee of the Cash Management Policy Board (Telephonically)
Mr. Mike Karia, Co-Chair, Investment Subcommittee of the Cash Management Policy Board (Telephonically)
The Honorable Ken Simpler, State Treasurer

Board Members Not in Attendance:

The Honorable Tom Cook, Secretary, Department of Finance
Mr. John Flynn, Chairman, Cash Management Policy Board

Others in Attendance:

Ms. Laura Gerard, Deputy Attorney General, OST Counsel (Telephonically)
Mr. John Krimmel, NEPC (Telephonically)
Mr. Kevin Leonard, NEPC (Telephonically)
Mr. Steve McVay, Director of Investments and Cash Management, Office of the State Treasurer
Ms. Susan Steward, Policy Advisor, Office of the State Treasurer
Ms. Martha Sturtevant, Executive Assistant to the State Treasurer

CALLED TO ORDER

Mr. Marvin called the meeting to order at 2:05 PM.

PROPOSED INVESTMENT GUIDELINE REVIEW

Mr. Marvin expressed his concerns regarding the appropriate Index in the proposed Guidelines. He said that he would like to see managers aiming higher than the Index.

Mr. Marvin also had comments regarding the standards proposed for the Land and Water Endowment. He stated that he prioritized asset safety over growth.

Mr. Simpler reviewed the goals of the Guideline Review Committee. He stated that the primary goal was a technical clean-up and organization of the Guidelines. He added that the managers provided positive feedback on the proposed draft.

Mr. Simpler reviewed the revised Investment Guidelines and requested comments from the Board.

Mr. Simpler started with section 1.1 where the statutory language states that the Cash Management Policy Board has the mandate as well as the authority to establish policies for all monies belonging to the State with only two specified exceptions: Pension and Deferred Compensation. Mr. Simpler stated that there have been other agencies that have opened up their own accounts. He added that it is not a trivial amount, and that the Board will want to consider whether to work more closely with these agencies, or to make changes to the statutory law.

Mr. Simpler continued with section 4.1 regarding Standards of Care. He said NEPC recommended updating the language. He also recommended clarifying the language. Mr. Flynn stated that he would like the language to reflect the Prudent Man Standard. Mr. Karia recommended updating, “funds in their custody” to, “State funds.”

Mr. Simpler moved to section 5.3 which refers to the collateralization of banks. He reviewed the monthly average versus the average balance and the theoretical concerns of a monthly collateralization. Mr. Simpler said that the Guidelines had been redrafted for a daily collateralization. Mr. Marvin agreed. There were no other objections.

Mr. Simpler reviewed the benchmarks currently reflected in the Endowment Fund Guidelines. Mr. Simpler said he didn’t think the managers should have our internal benchmarks, and that the benchmarks should be used by the Board to judge how the managers are performing over time. Mr. Marvin agreed.

The Board had a discussion around what should be the appropriate Index. Mr. Marvin stated that further consideration of appropriate Indexes would be deferred. Mr. Simpler suggested the Board consider whether the Investment Guidelines should be reflected in the Investment Policy Statement.

Mr. Karia asked for a legal review of the language review in 6.1.2 regarding to the Performance Benchmark. He wanted to query whether it was clear that the information is public. Mr. Simpler asked NEPC and Ms. Gerard review the section further and provide feedback.

Mr. Simpler discussed the intent of Permissible Investments in section 6.3.3. He noted it had not been adjusted in three decades. Mr. Marvin suggested changing it to \$100 Billion. Mr. Karia agreed.

Mr. Simpler reviewed section 6.3.11, noting that it would be a substantive change, but that he was unsure it should be included. He stated that the types of permissible assets that the reserve managers were able to hold included municipal obligations, and that the only category of assets that the liquidity managers were not allowed to hold are municipal investments. Mr. Simpler asked if the Board felt the markets had more liquidity now and if the statute was still relevant. Mr. Marvin stated that the original intent of the statute was out of concern for having liquidity in a crisis, and that the liquidity managers may not have adequate liquidity if they were invested in municipal investments. The Board considered the language and agreed the language should be removed.

The Board then discussed a limitation regarding the State holding its own debt. Mr. Krimmel recommended excluding Delaware debt.

Mr. Simpler reviewed the language around Alternative Investments. He said that the statute currently allows alternative and fixed income to be treated as one class and that the aggregate of both could not exceed 55%. He stated that he felt Alternative Investments may have been intended to cover anything that was not equity or debt, but as drafted it may imply something it shouldn’t. Mr. Marvin agreed and suggested a maximum of 25% and a minimum of zero.

Mr. Simpler reviewed section 10.5 that relates to the Mutual Funds Exception to the Guidelines. He asked the Board to consider incorporating into the Guidelines or document the exception as acceptable to the Board in the minutes. The Board agreed on option two with minor modifications.

Mr. Simpler noted for the Board that there was a new category added to the Guidelines called Operating Accounts. He stated that they were accounts consisting of segregated funds. He stated the Budget Reserve Fund was held only with JP Morgan and that it was inconsistent with the statute which states investments are to be allocated on a pro rata basis. Mr. Simpler suggested that it be tabled for further consideration by the full Board. Mr. Marvin expressed his approval of JP Morgan and how they have historically managed the Rainy Day Fund.

A MOTION was made by Mr. Marvin and seconded by Mr. Karia to present the Investment Guidelines, with amendments, for approval by the full Board.

MOTION ADOPTED UNANIMOUSLY

INVESTMENT CUSTODIAN RFP

Mr. McVay provided an update on the Investment Custodian RFP and stated the RFP had been posted online and the goal was for the evaluation panel to have a vendor recommendation for consideration by the Board at the August meeting.

PUBLIC COMMENTS

No public present for comment.

ADJOURNMENT

A MOTION was made by Mr. Marvin and seconded by Mr. Karia to adjourn the meeting at 3:06 PM

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David Marvin

Chair for the Investment Subcommittee, Cash Management Policy Board

Mike Karia

Co-Chair for the Investment Subcommittee, Cash Management Policy Board